Sunfire Energy Corporation

December 31, 1999 Annual Report

CORPORATE PROFILE

Sunfire Energy Corporation is a Calgary based company engaged in the exploration, development and production of crude oil and natural gas.

The Company presently confines its exploration and development activities to a limited number of areas in Western Canada where it has developed expertise.

The Company's primary objective is to build shareholder value through the discovery, development and acquisition of crude oil and natural gas.

The Company is headquartered in Calgary and its common shares are listed on The Canadian Venture Exchange under the trading symbol **SFE.A**.

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ANNUAL GENERAL MEETING

Shareholders are invited to attend the Annual General Meeting of the Corporation which will be held at the Metropolican Centre, 333 - 4th Avenue S.W., Calgary, Alberta on May 16, 2000 at 3:00 p.m.

HIGHLIGHTS

FINANCIAL

FISCAL YEARS	12 months ended Dec. 31, 1999	5 months ended Dec. 31, 1998
	$	$
Gross Revenue, less royalties	3,344,946	625,325
Cash flow from Operations	2,666,409	386,976
Per Share *	0.29	0.066
Net income	1,204,065	98,253
Per Share *	0.13	0.017
Net Capital Expenditures	5,497,540	2,699,570
Working Capital		1,384,796
Shareholders' Equity	11,597,375	9,137,802
Number of Common Shares Outstanding	10,102,573	9,001,818

* Based upon the weighted average number of common shares outstanding during the fiscal year, ended Dec. 1999 – 9,165,814; Dec. 1998 – 5,862,006.

OPERATIONS

FISCAL YEARS	12 months ended Dec. 31, 1999	5 months ended Dec. 31, 1998
Production		
Crude Oil (Bbls/d)	2	0
Natural Gas (Mcf/d)	3,670	1,935
Reserves – Proven & Probable		
Crude Oil (Mbls)	5	5
Natural Gas (MMcf)	27,707	11,126
Present Value of Reserves – Proven & 50% Probable		
(discounted at 12% before taxes)	$27,197,000	$9,398,000
Undeveloped Land Holdings		
Gross Acres	66,796	74,076
Net Acres	37,771	36,531

ABBREVIATIONS

Bbls	Barrels
Bbls/d	barrels per day
Mbls	Thousand of barrels
Mcf	Thousand cubic feet
Mcf/d	Thousand cubic feet per day
MMcf	million cubic feet
ARTC	Alberta Royalty Tax Credit
BOE	Barrels of Oil Equivalent 10 Mcf = 1BBL

PRESIDENT'S MESSAGE

Sunfire's performance during 1999 was very impressive. The major accomplishments were as follows:

- Production volumes increased by 90% to 3.7 MMcf/D
- Net asset value per share increased to 106%
- Finding and development costs were $3.35/BOE (proven reserves)
- Reserves increased 140% and reserve value increased 190%
- Cash flow/share and earnings/share were both up significantly
- Corporate netbacks were $18.46/BOE
- Gas prices increased by 24%
- An equity issue raised $2.2 MM from the sale of flow through shares at $2.25/share

Subsequent to year-end, Sunfire successfully acquired the shares of Braegan Energy. The Braegan acquisition adds 200 BOE/D of production and provides the Company with a second core area at Lodgepole. It also provides a significant number of attractive exploration and development opportunities. The acquisition of Braegan increases Sunfire's production base to 700 BOE/D and annualized cash flow to approximately $5.5 MM. The acquisition was financed using Sunfire's line of credit which results in a current debt of $4.8 MM.

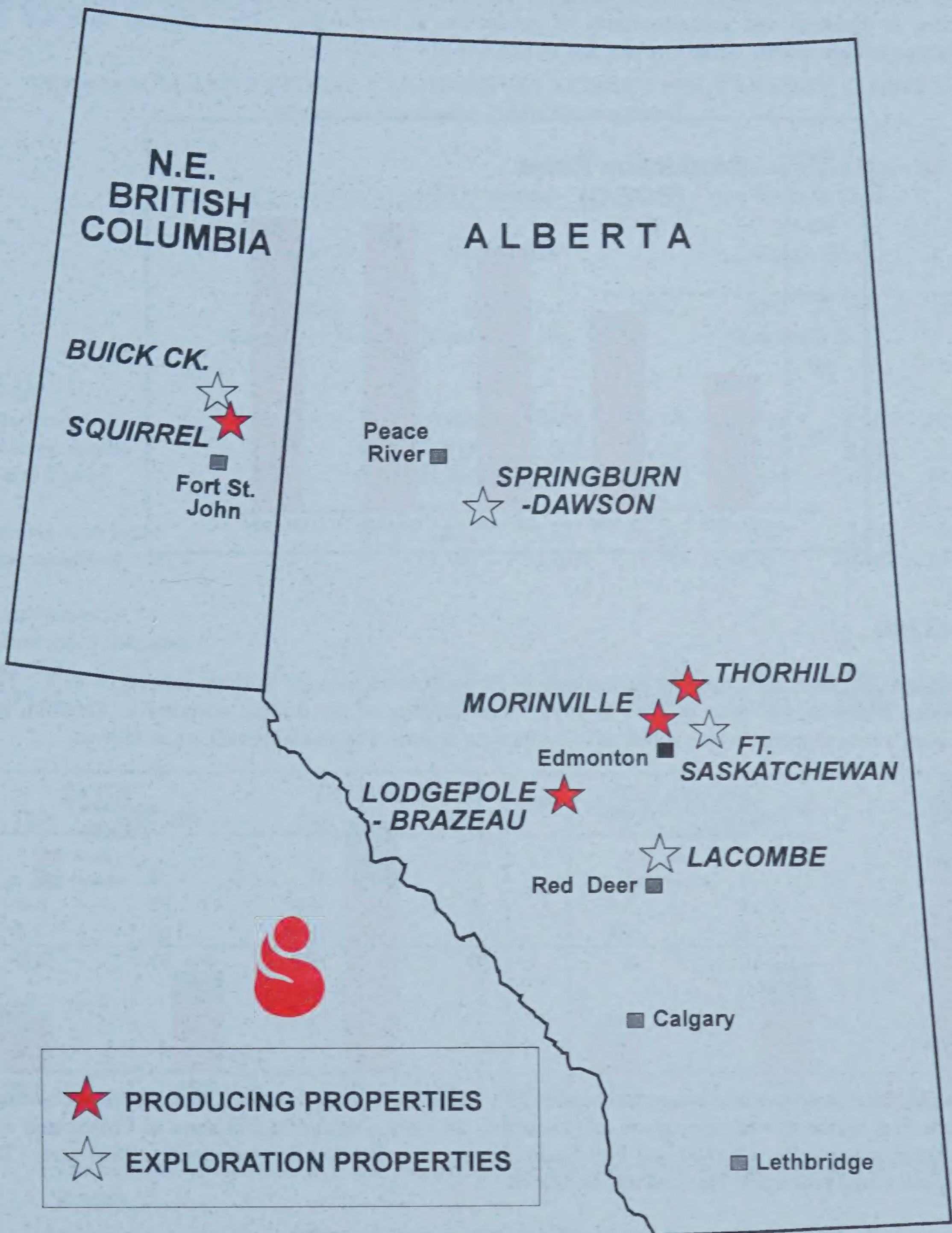
Sunfire expects to be very active in 2000. A 7 well program at Thorhild is planned for the second quarter and an 8 well program is planned for Lodgepole at the same time. Sunfire has several other opportunities which will be pursued in the near future. The Company expects to spend a total of $8 MM on exploration and development this year. Total expenditures, including acquisitions, are expected to be $15 MM.

The outlook for Sunfire looks very promising. The fundamentals of the oil and gas producing sector have not been this attractive for many years. Commodity prices, particularly natural gas, appear to be very strong in the short to medium term. The combination of increased demand for natural gas and tight supplies should provide for attractive prices in the future. In addition, the low Canadian dollar, relatively low interest rates and reasonable oilfield service and supply costs enhance the economic fundamentals of the sector. The combination of strong economic fundamentals, a large number of investment opportunities, a strong balance sheet and a very strong management team suggest that Sunfire will continue to grow and add shareholder value.

In summary, Sunfire has had an outstanding year and we believe that the year 2000 and beyond will be equally successful. I would like to thank all Sunfire's stakeholders – shareholders, directors, employees, consultants and suppliers for their continued support, advice and commitment.

On behalf of the Board of Directors

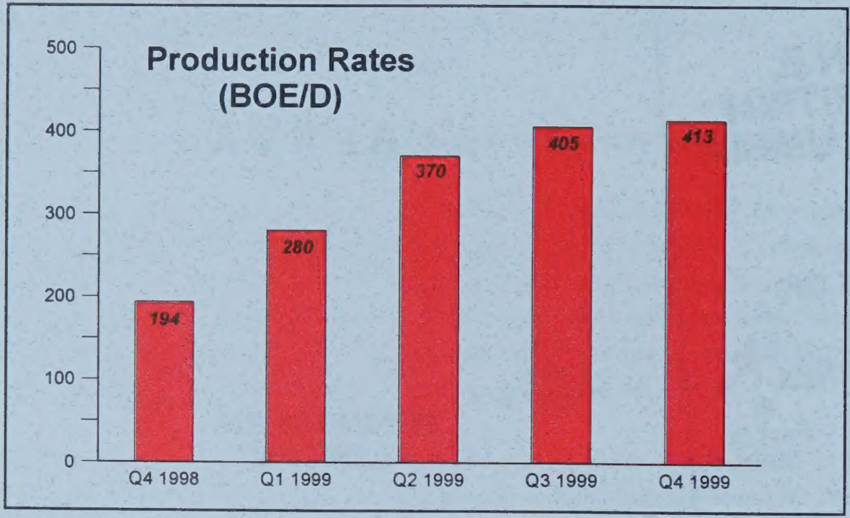
G.C. Merritt
President & C.E.O.
April 6, 2000


N.E. BRITISH COLUMBIA
ALBERTA
BUICK CK.
SQUIRREL
Fort St. John
Peace River
SPRINGBURN -DAWSON
THORHILD
MORINVILLE
FT. SASKATCHEWAN
Edmonton
LODGEPOLE - BRAZEAU
LACOMBE
Red Deer
Calgary
Lethbridge
PRODUCING PROPERTIES
EXPLORATION PROPERTIES

OPERATIONS REVIEW

PRODUCTION

In 1999, the average daily production volume increased by 91% from the year ending December 31, 1998 to 370 BOE/D, 99% of which was natural gas. The volume increase was primarily due to the drilling program at Thorhild and commencement of production at Morinville. The Company increased its production in each quarter of the year and had an exit rate of 470 BOE/D.



DRILLING

Throughout the year, the Company participated in 20 wells at an average working interest of 81%. The Company had a success ratio of 52% in 1999. The majority of the drilling occurred at Thorhild, the Company's core property, where a total of 13 wells were drilled. The annual results are as follows:

	EXPLORATION		DEVELOPMENT		TOTAL	
	GROSS	NET	GROSS	NET	GROSS	NET
Oil	0	0	0	0	0	0
Gas	4	3.6	6	4.8	10	8.4
Dry	6	4.4	4	3.4	10	7.8
TOTAL	10	8	10	8.2	20	16.2

LAND

Thorhild, the Company's core property, contains 25% of Sunfire's land position. Other significant holdings include Fort Saskatchewan, Springburn and Lacombe. In 1999, a total of 5,000 acres of Crown land was purchased at Lacombe, Thorhild and Fort Saskatchewan at an average purchase price of $61/acre. The Company's land position at year-end was as follows:

Land Summary at December 31, 1999
(all lands are located in Alberta)

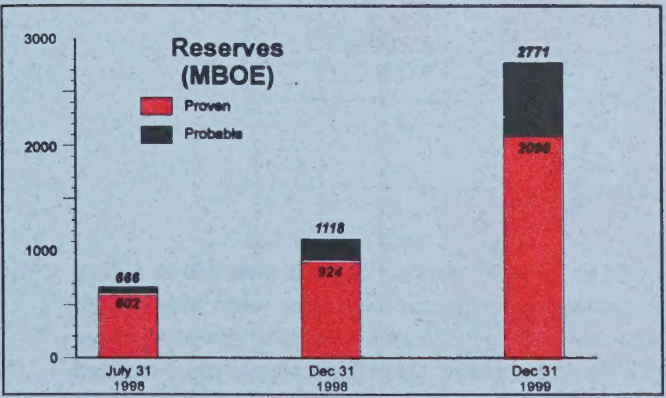
	GROSS ACRES	NET ACRES	ROYALTY ACRES
UNDEVELOPED	66,796	37,771	480
DEVELOPED	40,809	19,490	6,800
	107,605	57,261	7,280

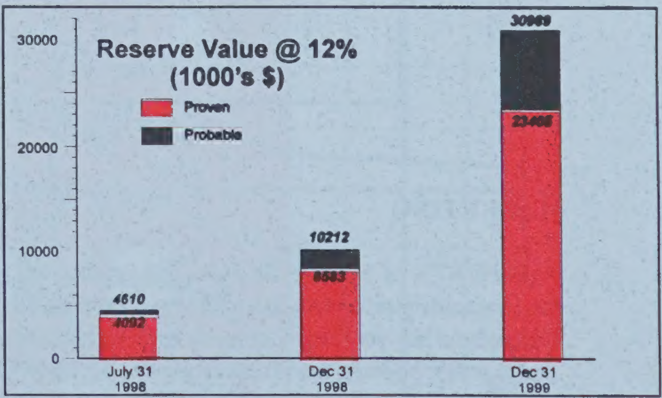
RESERVES

The Company's reserves were estimated at January 1, 2000, by the independent petroleum engineering firm of Martin & Brusset Associates of Calgary. The volumes and estimated present value of the Company's proved and probable reserves, as determined by Martin & Brusset are shown in the following table. The values are forecast after the payment of operating expenses, capital costs and royalties, but prior to the payment of income taxes and indirect costs such as general and administrative expenses.

PETROLEUM AND NATURAL GAS RESERVES AND NET PRE-TAX CASH FLOWS
(Based on Escalating Price Assumptions)

	Corporation's interest in reserves				Present worth of future net pre-tax cash flows			
	Crude Oil & NGLs (Mbls)		Natural Gas (MMcf)		Discounted at			
					0%	10%	15%	20%
	Gross	Net	Gross	Net	(thousands of $)			
Proved								
Producing	0	1	12,081	9,606	25,376	14,416	12,162	10,628
Non-producing	5	4	8,814	6,909	18,281	10,810	9,017	7,756
Total Proved	5	5	20,895	16,515	43,657	25,226	21,179	18,384
Probable Additional	0	0	6,812	5,331	14,397	8,191	6,823	5,840
Total including ARTC	**5**	**5**	**27,707**	**21,846**	**58,054**	**33,417**	**28,002**	**24,224**
Less risking of Probable Additional @ 50%	0	0	3,406	2,665	7,199	4,096	3,412	2,920
TOTAL	**5**	**5**	**24,301**	**19,181**	**50,856**	**29,322**	**24,591**	**21,304**





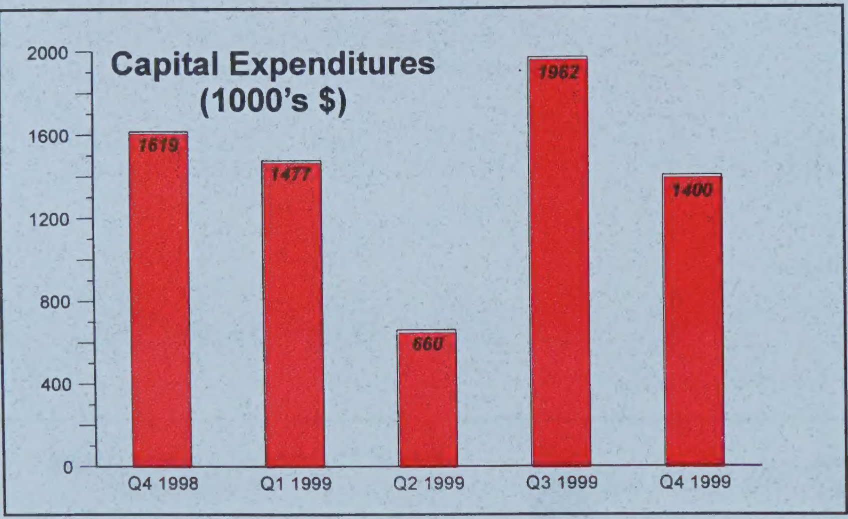
The estimate of future net revenue is based on the following price forecast prepared by Martin & Brusset

	Alberta Spot ($/MMBTU)	PanAlberta ($/MMBTU)
2000	2.75	2.60
2001	2.75	2.70
2002	2.80	2.80
2003	2.85	2.85
2004	2.90	2.90

CAPITAL EXPENDITURES

Capital expenditures increased in 1999 over the previous year. In particular, the capital associated with exploration and development activities was significantly higher. Although many attempts to purchase properties were made, capital expenditures associated with acquisitions was relatively low. The capital expenditures were distributed as follows:

	12 mos. Ending Dec. 31, 1999	5 mos. Ending Dec. 31, 1998
Land	**613,513**	115,656
Seismic	**229,857**	165,233
Drilling & Completions	**3,353,603**	616,847
Facilities	**1,104,133**	574,532
Acquisitions	**175,000**	1,180,000
Other	**56,443**	47,302
TOTAL	**5,532,550**	2,699,570



MARKETING

In 1999, 87% of Sunfire's natural gas production was sold to the spot market. Sunfire attempts to reduce the commodity price risk associated with the capital program by fixing commodity prices when appropriate. Throughout the year, the Company had several fixed price contracts in place on a portion of gas production. The average price of those contracts was $2.70/MCF on 46% of gas production. The average price realized on all gas production was $2.73/MCF. Subsequent to year-end, the Company has fixed the price at $3.34/MCF on 4.0 MMcf/D and intends to continue to fix prices assuming they remain strong.

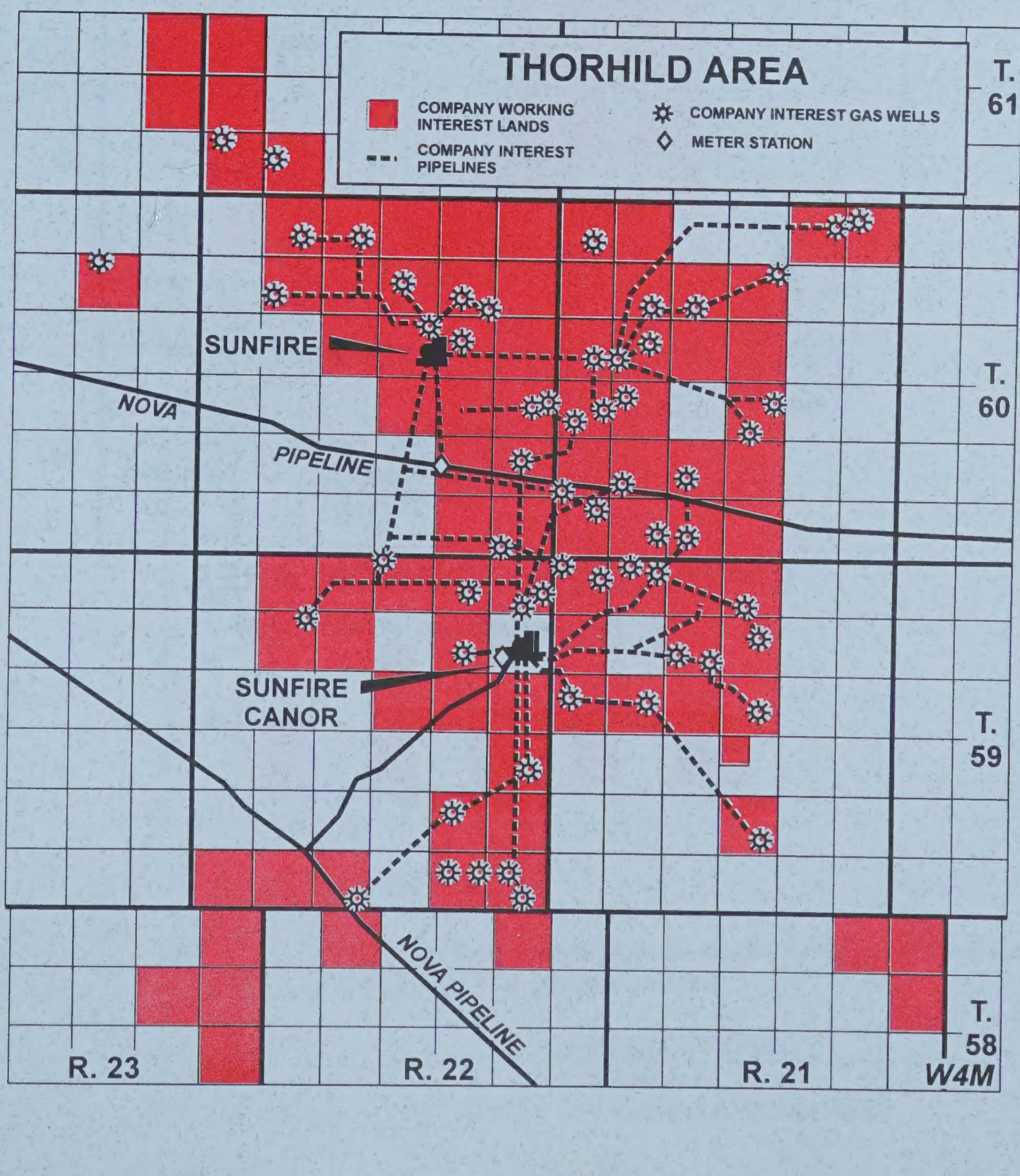
PROPERTY REVIEW

Thorhild

In 1999, 85% of Sunfire's production came from Thorhild which is located 70 kilometers North East of Edmonton. Sunfire's average working interest is 60% and the majority of the wells are company-operated. The Company has an interest in 2 gas plants, one of which is operated by Sunfire. In 1999, the Company accomplished the following:

- Drilled 13 wells of which 7 were successful
- Completed and tied-in 7 wells
- Recompleted 8 wells
- Increased the average production rate to 3.3 MMcf/D from 1.9 MMcf/D last year
- Reduced operating costs to 29¢/Mcf
- Optimized the Sunfire-operated gas plant to increase throughput
- Exit rate at year-end was 4.2MMcf/D

The Company plans to continue to develop the Thorhild property. A multi-well drilling program is planned for the second quarter of 2000 and several recompletion opportunities will be pursued in 2000 as well.

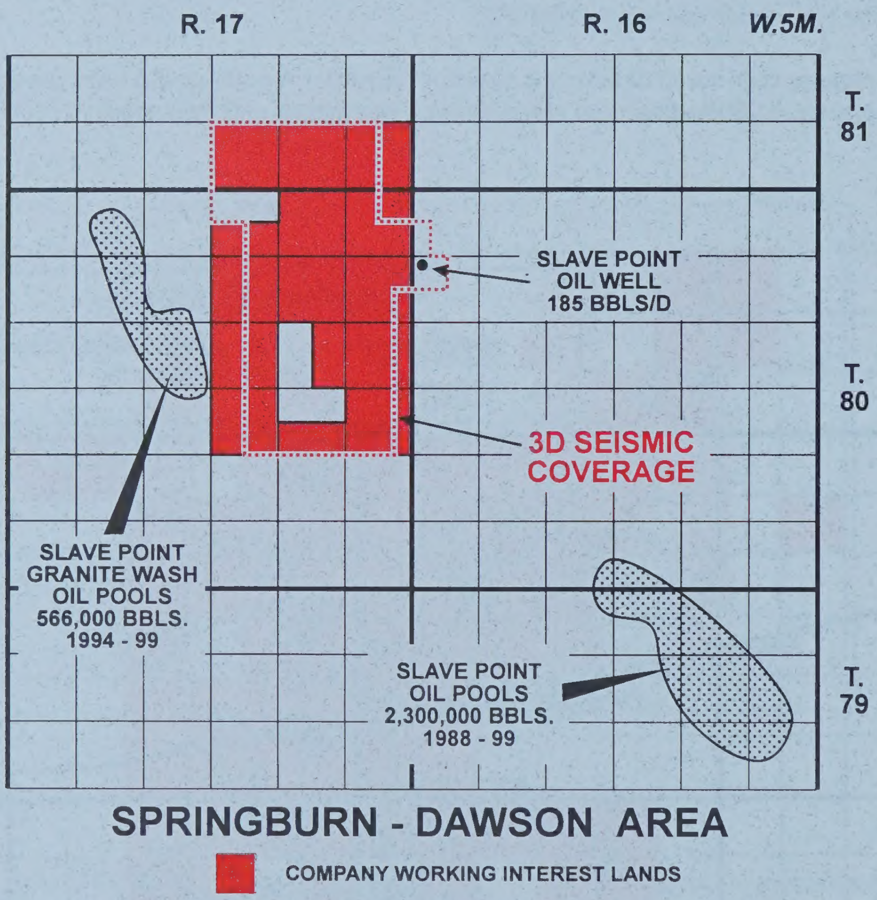


FORT SASKATCHEWAN

Sunfire has an average working interest of 80% in 7,000 acres of undeveloped land at Fort Saskatchewan. The area is potentially prospective in the Ellerslie, Lower Mannville, Glauconite and Viking zones. We drilled 5 wells in 1999, 2 of which were successful and scheduled for tie-in during 2000.

SPRINGBURN / DAWSON

Sunfire currently has a 19% working interest in 10,560 acres of undeveloped land in this area. The principal targets are Slave Point, Granite Wash and Bluesky. A significant number of possible locations have been identified on the lands. In 1999 we drilled one well which was unsuccessful. The activity level was lower than planned due primarily to a change in operator. The Company is interested in pursuing the exploration of the lands and expects an increase in activity in the year 2000.



MANAGEMENT'S DISCUSSION AND ANALYSIS

REVENUE

Total revenue from oil and gas sales for the year ending December 31, 1999, was $3,695,766 compared with $637,400 in the 5 month period ending Dec. 31, 1998. The monthly revenue increased by 142% due to increased production volumes (91% increase) and higher prices (24% increase).

OPERATING EXPENSES

In 1999, operating costs decreased to $4.08/BOE from $4.66/BOE. The operating costs at Thorhild, which represents 85% of the production volume, were $2.90/BOE. The lower cost from last year is attributed to spreading the fixed operating costs at Thorhild over a larger production base.

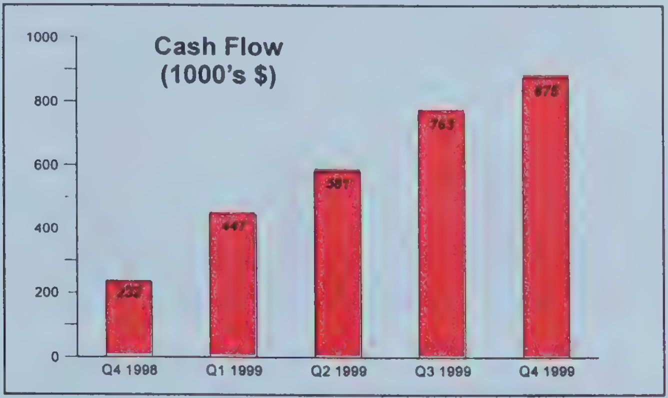
GENERAL AND ADMINISTRATIVE EXPENSES

Costs associated with G & A were $214,107 ($1.59/BOE) and an additional $175,000 was capitalized for a total of $389,107 ($2.88/BOE). G & A costs per unit of production decreased by 48% from the previous reporting period. We expect G&A costs per unit of production to continue to decrease as production increases.

CASH FLOW

Cash flow for 1999 increased significantly over the 5 month period ending December 31, 1998. Average monthly cash flow was 187% higher than the previous period. Total annual cash flow was $2,666,409 (29¢/share) and increases were realized in each quarter throughout the year. Netbacks were $18.46 per BOE.

	TOTAL	per BOE
Revenue $	3,695,766	27.37
Interest	86,262	0.64
Royalties (net of ARTC) $	350,820	2.59
Operating Costs $	550,692	4.08
G & A (including capitalized portion) $	389,107	2.88
Netback	2,494,409	18.46



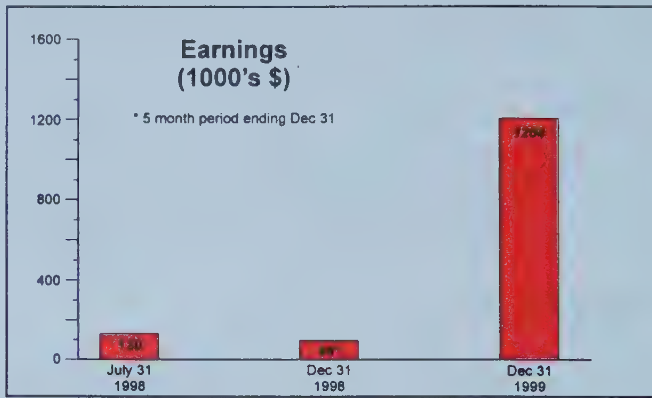
FINDING AND DEVELOPMENT COSTS

Sunfire spent a total of $5.4 MM on finding and development projects which resulted in reserve additions of 16.1 BCF of proven and 18.8 BCF of proven plus 50% probable reserves.

FINDING COST	RECYCLE RATIO
$3.35/BOE proven	5.5 proven
$2.87/BOE proven & 50% probable	6.4 proven & 50% probable

EARNINGS

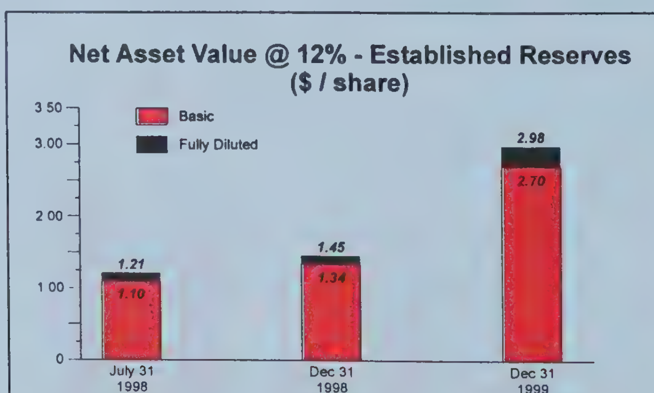
Corporate earnings in 1999 showed impresive increases compared to previous years. Earnings were $1,204,065 ($0.13/share). The earnings increase was driven by low finding and development costs, higher gas prices and higher production rates.



NET ASSET VALUE

The Company's net asset value increased significantly in 1999. The calculation of net asset value is as follows (1,000's $):

	10% D.F.	12% D.F.	15% D.F.
Reserves – proven & 50% probable	29,322	27,197	24,591
Undeveloped Land @ $50/acre	1,889	1,889	1,889
Working Capital	778	778	778
	32,275	30,150	27,544
Per share – Basic ($)	3.19	2.98	2.72
– Fully Diluted ($)	2.89	2.70	2.47



INCOME TAXES

The Company is considering the early adoption of a new accounting standard for the recognition, measurement, presentation and disclosure of income taxes. This new standard requires the use of the liability method of tax allocation accounting, whereby the measurement of future tax assets or liabilities will be based on a balance sheet approach rather than the income statement approach under the deferral method. The new method, which is a requirement of the fiscal year 2000, may be applied either with or without restating prior years' financial statements. The timing of incorporating this new accounting standard is currently under review by the Company.

AUDITED FINANCIAL STATEMENTS
December 31, 1999

MANAGEMENT'S REPORT

The accompanying financial statements are the responsibility of management and have been prepared in accordance with accounting principles generally accepted in Canada.

Management acknowledges responsibility for the integrity of the financial statements and all other financial information in this annual report. Where appropriate, management has made informed judgments and estimates in accounting for transactions which affect the current accounting period but cannot be finalized with certainty until future periods. Company policies and procedures have been implemented to reasonably ensure that transactions are appropriately authorized, assets are safeguarded from loss and financial records are maintained. To further minimize risk, management maintains adequate systems of internal control.

The Board of Directors is responsible for ensuring that management fulfills its responsibilities for financial reporting and has appointed an audit Committee. This committee, consisting of a majority of non-management directors, meets with management and external auditors to ensure that each group is properly discharging its responsibilities and to discuss internal control, accounting policies and financial reporting matters. The Audit Committee has reviewed the financial statements and has reported thereon to the Board of Directors. The Board of Directors has approved the financial statements for issuance to the Shareholders.

G.C. Merritt
President

P.W. Goodman
Secretary Treasurer

AUDITORS' REPORT

To the Shareholders of Sunfire Energy Corporation

We have audited the balance sheets of Sunfire Energy Corporation as at December 31, 1999 and 1998 and the statements of income and retained earnings and changes in financial position for the year ended December 31, 1999, the five months ended December 31, 1998 and the year ended July 31, 1998. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We have conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the company as at December 31, 1999 and 1998 and the results of its operations and the changes in its financial position for the periods then ended in accordance with generally accepted accounting principles.

Henrickson & Shannon

CHARTERED ACCOUNTANTS

Calgary, Canada
February 16, 2000

SUNFIRE ENERGY CORPORATION

BALANCE SHEET

DECEMBER 31, 1999 and 1998

	1999 $	1998 $
ASSETS		
CURRENT ASSETS		
Cash	**2,237,770**	1,731,469
Receivables	**1,114,765**	667,274
Prepaid expenses	**3,267**	3,150
	3,355,802	2,401,893
CAPITAL ASSETS (Note 3)	**12,172,590**	8,400,286
	15,528,392	10,802,179
LIABILITIES		
CURRENT LIABILITIES		
Payables and accruals	**2,577,494**	1,017,097
PROVISION FOR FUTURE SITE RESTORATION (Note 5)	**114,023**	94,780
DEFERRED INCOME TAXES (Note 8)	**1,239,500**	552,500
	3,931,017	1,664,377
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (Note 6)	**8,676,095**	7,420,587
RETAINED EARNINGS	**2,921,280**	1,717,215
	11,597,375	9,137,802
	15,528,392	10,802,179

See accompanying notes

Approved by the Board:

DOUGLAS MITCHELL, Chairman

GEOFFREY MERRITT, Director

SUNFIRE ENERGY CORPORATION

STATEMENT OF INCOME AND RETAINED EARNINGS

YEAR ENDED DECEMBER 31, 1999,

FIVE MONTHS ENDED DECEMBER 31, 1998 AND YEAR ENDED JULY 31, 1998

	12 mo. Dec. 31 1999 $	5 mo. Dec. 31 1998 $	12 mo. July 31 1998 $
REVENUE			
Petroleum and natural gas sales	**3,695,766**	637,400	1,072,615
Less royalties and tax credits	**(350,820)**	(38,735)	(139,311)
	3,344,946	598,665	933,304
Interest and other income	**86,262**	26,660	91,233
	3,431,208	625,325	1,024,537
EXPENSES			
General and administrative	**214,107**	100,347	150,879
Well operating expenses	**550,692**	138,002	174,152
Depletion and amortization	**718,995**	225,767	530,155
Site restoration	**56,349**	52,056	8,904
	1,540,143	516,172	864,090
INCOME BEFORE TAXES	**1,891,065**	109,153	160,447
DEFERRED INCOME TAXES (Note 8)	**687,000**	10,900	29,900
NET INCOME FOR PERIOD	**1,204,065**	98,253	130,547
RETAINED EARNINGS BEGINNING OF PERIOD	**1,717,215**	1,618,962	1,488,415
RETAINED EARNINGS END OF PERIOD	**2,921,280**	1,717,215	1,618,962
NET INCOME PER SHARE (Note 7)			
Basic	**13.1¢**	1.7¢	2.6¢
Fully diluted	**11.2¢**	1.7¢	2.6¢

See accompanying notes

SUNFIRE ENERGY CORPORATION

STATEMENT OF CHANGES IN FINANCIAL POSITION

YEAR ENDED DECEMBER 31, 1999,

FIVE MONTHS ENDED DECEMBER 31, 1998 AND YEAR ENDED JULY 31, 1998

	12 mo. Dec. 31 1999 $	5 mo. Dec. 31 1998 $	12 mo. July 31 1998 $
CASH DERIVED FROM (APPLIED TO):			
OPERATING ACTIVITIES			
Net income for period	**1,204,065**	98,253	130,547
Adjustments to operations not involving cash			
Amortization and depletion	**718,995**	225,767	530,155
Deferred income taxes	**687,000**	10,900	29,900
Site restoration provisions	**56,349**	52,056	8,904
Cash flow from operations	**2,666,409**	386,976	699,506
Changes in other working capital elements	**1,112,789**	250,253	(336,763)
	3,779,198	637,229	362,743
FINANCING ACTIVITIES			
Share capital issued	**2,267,450**	3,641,800	839,500
Share issue costs	**(42,807)**	(172,436)	(33,819)
	2,224,643	3,469,364	805,681
INVESTING ACTIVITIES			
Expenditures on oil and gas properties and equipment	**(5,460,434)**	(2,652,268)	(1,362,485)
Proceeds from sales of oil and gas properties	**-**	-	529,300
Site restoration expenditures	**(37,106)**	(47,302)	-
	(5,497,540)	(2,699,570)	(833,185)
NET INCREASE IN CASH DURING PERIOD	**506,301**	1,407,023	335,239
CASH (DEFICIENCY) BEGINNING OF PERIOD	**1,731,469**	324,446	(10,793)
CASH END OF PERIOD	**2,237,770**	1,731,469	324,446
CASH FLOW FROM OPERATIONS PER SHARE	**29.1¢**	6.6¢	13.9¢

See accompanying notes

SUNFIRE ENERGY CORPORATION

NOTES TO FINANCIAL STATEMENTS

December 31, 1999

The company is engaged primarily in the exploration for and production of petroleum and natural gas in Alberta.

1. OPERATIONS

During 1998, the company received permission from the appropriate authorities to change its fiscal year end from July 31 to December 31. In accordance with reporting requirements, comparative financial information is provided in the statement of income and retained earnings and changes in financial position for the five months ended December 31, 1998 as well as the twelve months ended July 31, 1998.

2. SIGNIFICANT ACCOUNTING POLICIES

a. Joint venture activities

Substantially all of the company's exploration and production activities are conducted jointly with others and the accounts reflect only the company's proportionate interest in such activities.

b. Capital assets

Oil and gas property and equipment

The company follows the full cost method of accounting for oil and gas operations whereby all costs associated with the acquisition of, exploration for, and development of oil and gas reserves are capitalized. Such amounts include lease acquisition, geological and geophysical exploration, carrying charges for unproved properties, costs of drilling both productive and non-productive wells, and administrative overhead related to exploration and development activities. Proceeds from the disposition of properties are normally applied as a reduction of capitalized costs except for significant disposals for which a gain or loss is included in operations.

Depletion and amortization of these costs, including provision for future site restoration and abandonment expenditures, is provided using the unit-of-production method based upon proved reserves, with gas and oil converted to energy equivalent units. The costs of significant unevaluated properties are not included in the base.

Capitalized costs of oil and gas assets are subject to a ceiling test calculation whereby the carrying value is limited to the future net revenue from production of proved reserves based on current prices, costs, and the value of unproven properties at the lower of cost or net realizable value.

Furniture and office equipment

Furniture and office equipment is recorded at cost and amortized using the declining balance method at the following annual rates: Furniture – 20%, Computer equipment – 30%, Computer software – 100%.

c. Future site restoration and abandonment

The future costs of restoring oil and gas properties are estimated each year by management based on current regulations, technology and industry standards. The annual provision is calculated using the unit-of-production method. Actual site restoration and abandonment costs are charged to the accumulated provision account as incurred.

d. Flow-through shares

The resource expenditure deductions related to exploration and development activities, funded by flow-through share arrangements, are renounced to investors in accordance with current tax legislation. Petroleum and natural gas property expenditures and share capital issued are recorded net of the estimated income tax benefits renounced.

e. Financial instruments

A financial instument is recognized when a contractual benefit or obligation exists for the future receipt or payment of monetary amounts and is recorded at inception at the fair market value of consideration paid or received, along with the costs of acquisition or issuance.

f. Per share data

Cash flow from operations and basic net income per share are calculated based on the weighted average number of shares outstanding during the period.

The calculation of fully diluted earnings per share assumes that, if a dilutive effect is produced, all outstanding options and warrants have been exercised at the later of the beginning of the fiscal period and the option issue date, and includes an allowance for imputed earnings which would have been received from the investment of funds. If the effect of fully diluted net income per share is antidulutive, then fully diluted net income per share is equal to basic net income per share.

g. Measurement uncertainty and the use of estimates

The amounts recorded for depletion and amortization of capital assets and the provision for future site restoration costs are based on estimates. The ceiling test calculation is based on such factors as estimates of proved reserves, production rates, oil and natural gas prices, future costs and other relevant assumptions. The preparation of financial statements also requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. These estimates are subject to measurement uncertainty. Actual results could differ from and affect the results reported in these financial statements.

3. CAPITAL ASSETS

	1999 $	1998 $
Petroleum and natural gas properties and equipment	**16,424,767**	11,952,805
Furniture and office equipment	**85,063**	65,726
	16,509,830	12,018,531
Less accumulated depletion and amortization	**(4,337,240)**	(3,618,245)
	12,172,590	8,400,286

Unevaluated properties with a cost of approximately $1,129,282 (1998 - $1,118,128) included in petroleum and natural gas properties have not been subject to depletion. Administrative overhead capitalized during the period amounted to $175,000 (5 Month period ended Dec 31, 1998 - $63,142).

4. BANK INDEBTEDNESS

The company has a line of credit available to $900,000 with interest at prime bank lending rate plus ½% which is collateralized by assignments of book debts, general security agreement, and a demand debenture (see also note 12).

5. PROVISION FOR FUTURE SITE RESTORATION

	1999 $	1998 $
Balance, beginning of period	**94,780**	90,024
Provision for period	**56,349**	52,057
Site restoration expenditures	**(37,106)**	(47,301)
	114,023	94,780

6. SHARE CAPITAL

a. **Authorized**

Unlimited number of Class A voting common shares
Unlimited number of Class B non-voting common shares
Unlimited number of Class C, D and E preferred shares

b. **Issued**

Class A shares	**Number of Shares**	**Amount $**
Balance July 31, 1998	5,491,090	4,668,177
Issue of flow-through shares	1,460,728	1,606,800
Share issue costs	-	(172,436)
Estimated tax benefits renounced	-	(716,954)
Issue of shares on private placement	2,000,000	2,000,000
Issue of shares on exercise of stock options	50,000	35,000
Balance December 31, 1998	9,001,818	7,420,587
Issue of flow-through shares	965,755	2,172,950
Share issue costs	-	(42,807)
Estimated tax benefits renounced	-	(969,135)
Issue of shares on exercise of stock options	135,000	94,500
Balance December 31, 1999	**10,102,573**	**8,676,095**

c. **Flow-through shares**

On December 2, 1999, the company completed the private placement of 965,755 flow-through Class A common shares at $2.25 per share. The paid up amount for flow-through shares and the cost of petroleum and natural gas properties was reduced by the estimated amount of the tax benefits renounced.

d. **Stock Options**

Under an incentive stock option plan, the company has granted 550,000 stock options to directors and employees of the company. The stock options are exercisable as follows: 200,000 at $0.70, 250,000 at $1.00, 75,000 at $1.10 and 25,000 at $1.90 per Class A common share. The options will expire at various times to December 19, 2004.

e. **Warrants**

In connection with a private placement undertaken by the company on April 30, 1998, the company issued 500,000 warrants. Each warrant entitles the holder to purchase one Class A common share at $0.70 per share on or before April 30, 2000. In connection with a private placement undertaken by the company on December 18, 1998, the company issued 1,000,000 warrants. Each warrant entitles the holder to purchase one Class A common share at $1.25 per share on or before December 18, 2000.

7. PER SHARE INFORMATION

a. Basic

Per share information is calculated on the basis of the weighted average number of common shares outstanding during the year ended December 31, 1999 of 9,165,814 (five months ended December 31, 1998 – 5,862,006 and the twelve months ended July 31, 1998 – 5,034,528).

b. Fully diluted

The weighted average number of shares used for determination of the fully diluted income per share for the year ended December 31, 1999 – 10,765,814 (five months ended December 31, 1998 – 5,862,006 and the twelve months ended July 31, 1998 – 5,034,528) (note 1f).

8. INCOME TAXES

	12 months Dec. 31, 1999 $	5 months Dec. 31, 1998 $	12 months July 31, 1998 $
Income before provision for income taxes	**1,891,065**	109,153	160,447
Expected taxes at combined federal and provincial rates of approximately 44.6%	**843,400**	48,700	71,600
Effect of:			
Non-deductible Crown charges	**290,900**	21,000	47,700
Alberta Royalty Tax Credits	**(187,700)**	(12,700)	(33,500)
Federal resource allowance	**(238,500)**	(40,800)	(21,300)
Other	**(21,100)**	(5,300)	(34,600)
Deferred income taxes provided	**687,000**	10,900	29,900

The following estimated balances are available for application to future taxable income.

	Dec. 31, 1999 $	Dec. 31, 1998 $	July 31, 1998 $
Undepreciated capital cost	**2,109,126**	1,467,931	650,992
Cumulative eligible capital	**32,440**	34,882	37,507
Canadian oil and gas property expense	**2,439,700**	2,018,690	1,105,262
Canadian development expenses	**395,357**	111,017	795,937
Canadian exploration expenses	**1,886,109**	2,194,314	2,417,525
	6,862,732	5,826,834	5,007,223

9. YEAR 2000 ISSUE

The Year 2000 Issue arises because many computerized systems use two digits rather than four to identify a year. Date-sensitive systems may recognize the year 2000 as 1900 or some other date, resulting in errors when information using year 2000 dates is processed. In addition, similar problems may arise in some systems which use certain dates in 1999 to represent something other than a date. Although the change in date has occurred, it is not possible to conclude that all aspects of the Year 2000 Issue that may affect the entity, including those related to customers, suppliers, or other third parties, have been fully resolved.

10. FINANCIAL INSTRUMENTS

a. Risk Management

(i) Credit risk

A substantial portion of the company's receivables are with customers and joint venture partners in the petroleum and natural gas industry and are subject to normal industry credit risks. The carrying value of accounts receivable reflects management's assessment of the credit risk associated with these customers and participants.

(ii) Oil and gas prices

The company fixes prices on a portion of its gas production to reduce its price risk. At December 31, 1999, the company had fixed the price on approximately 2.7 million cubic feet per day of gas production until March 31, 2000 at an average plant gate price of $3.20 per thousand cubic feet.

b. Fair Values

The fair value of financial assets and liabilities that are included in the balance sheet approximate their carrying amount due to the short term maturity of these instruments.

11. COMMITMENTS

At December 31, 1999, the company is committed to a minimum annual lease payment for premises in the amount of $9,004 to the expiry of the lease on July 31, 2000.

12. SUBSEQUENT EVENTS

a. Proposed take over of Braegan Energy Ltd.

On February 11, 2000 the Board of Directors gave approval for the company to enter into an agreement whereby Sunfire Energy Corporation will make a cash offer to acquire all of the issued and outstanding common shares of Braegan Energy Ltd. for $0.62 per share representing an aggregate purchase price of approximately $5,425,912 if all common shares, on a fully diluted basis, are acquired. The offer will be conditional upon Sunfire Energy Corporation acquiring at least 66 2/3% of Braegan Energy Ltd.'s common shares.

In the event that Sunfire Energy Corporation determines not to proceed with the offer, and all of the conditions of the offer having been satisfied or waived, Sunfire Energy Corporation will be required to pay Braegan Energy Ltd. a break fee of $200,000.

b. Financing of proposed take over of Braegan Energy Ltd.

Subsequent to year end, Sunfire Energy Corporation entered into negotiations with the Hongkong Bank of Canada to increase its line of credit from $900,000 to $6,200,000 in order to finance the share purchase of Braegan Energy Ltd.

13. COMPARATIVE INFORMATION

Certain of the December 31, 1998 and July 31, 1998 comparative amounts have been restated to conform with the financial statement presentation in the current period.

NOTES

CORPORATE INFORMATION

DIRECTORS

* Geoffrey C. Merritt
Calgary, Alberta
President of the Corporation

* Roderick Campbell
Calgary, Alberta
Business Consultant

Douglas H. Mitchell
Calgary, Alberta
Co-Chairman and Managing Partner
of Borden Ladner Gervais LLP

* William R. Stedman
Calgary, Alberta
Businessman

* *Member of Audit Committee*

AUDITORS

Henrickson & Shannon
Calgary, Alberta (pre 00/03/31)

KPMG LLP
Calgary, Alberta (post 00/03/31)

BANKERS

Hongkong Bank of Canada
Calgary, Alberta

EVALUATION ENGINEERS

Martin & Brusset Associates
Calgary, Alberta

LEGAL COUNSEL

Borden Ladner Gervais LLP
Calgary, Alberta

STOCK EXCHANGE LISTING

Canadian Venture Exhange
Trading Symbol SFE.A

TRANSFER AGENT AND REGISTRAR

Montreal Trust
Calgary, Alberta

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